

SCHOOL BUSINESS ALERT

Volume 1995-2

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FY94 CAR OPERATING FUND ANALYSIS

Enclosed with the copy of this newsletter sent to the SBO is a report on the FY94 CAR General Operating Fund data. Based on feedback received from the FY93 report on the value of this report as management information, state totals information has been added. Please send suggestions of what other information you would find useful in your financial operations to Susan McCurdy.

State totals information is available on request to add to the FY93 report. Request a copy of this information from Elaine Mowrey, 515-281-4729.

1995-96 MAXIMUM TUITION RATES

Also enclosed with the newsletter sent to the SBO is a copy of the 1995-96 Maximum Tuition Rates.

QUESTIONS YOU ASKED

Q: What will be the due date on the CAR after all districts upgrade to GAAP reporting on July 1, 1996?

A: The due date will be the same as it is now for districts reporting on the GAAP basis: September 15

Q: How do you read the cell numbers on the CAR?

A: Each cell number is six digits in length. The first two digits indicate the Part number from the CAR, the next two digits indicate the row number, and the last two digits indicate the column number
Part - Row - Column

ANSWER FROM THE U. S. BUREAU OF THE CENSUS ON UNIFORM FINANCIAL ACCOUNTING

Q: What is the correct object code for registrations for workshops, conferences, and conventions for staff? What is the correct object code for entry fees for student contests? Do either of these fit the definition of fees under object code 810?

A: Thanks to Eunice Ave for the following response: For staff registrations for workshops, etc., please use object 595 for "purchased services". For entries for student contests, use object code 895 for "other objects".

ANSWERS FROM THE IRS ON TAXABLE INCOME

Susan McCurdy, E A, corresponded with Ruth Lakers, Tax Law Specialist, Internal Revenue Service, on the taxability of certain Phase III and Wellness arrangements. Many thanks to Ms. Lakers for her research. Ruth Phone #. 284-4820

Phase III.

Situation: Some districts allow teachers to earn "points" for their Phase III work instead of paying them the money in salary. These points are the equivalent to the salary the teacher would have received for the work. These points are banked. When a teacher has earned enough "points" to cover the cost of a substitute teacher, the teacher may take a day off work. The districts use the cash equivalent to the bank of points to pay the salary of the substitute teacher (or any other benefit the teacher may choose).

Taxability: It appears that because the teacher has earned points in lieu or exchange for cash that it would be considered as wages at the time earned

Wellness

The value of fringe benefits an employee receives from the employer is taxable and must be included in income as compensation, unless the benefits are specifically excluded by law or the employee pays for them. The employer determines the amount of the taxable fringe benefits and includes this amount on the employee's W-2.

The district may want to obtain and read the following two IRS publications:

525, *Taxable and Nontaxable Income*, and
535, *Business Expenses*

Situation: Most districts have a wellness plan which provides activities and benefits for employees. Examples of possible items include:

1. Employees keep exercise records and earn points. At the end of the program, the employees are given a cash reimbursement for the cost of their shoes or sweats. Sometimes employees are given shoes, shorts, or sweats instead of cash.
2. Districts reimburse employees for the membership costs of joining the YMCA, spa, golf course, etc.
3. Districts pay the YMCA to allow any employees to use their facilities. This could be only for a specific class of employees such as teachers and administrators.
4. Districts provide an exercise room on district property.
5. Districts provide a vegetable and fruit tray to employees on their birthdays.
6. Districts conduct surprise safety checks. Employees wearing their seat belts receive a roll of Lifesavers.
7. Districts charter a bus and take interested employees to activities such as a baseball game in Kansas City. Districts pay the admission.
8. Districts reimburse employees for costs to join Weight Watchers or similar organization.
9. Districts pay a Weight Watchers or similar leader to provide a group for the district employees at no additional charge to employees.
10. Districts reimburse employees for their annual physicals. Some employees are required to have physicals, others are not.
11. Districts pay a doctor to provide physicals for all employees at no additional cost.
12. Districts pay a hospital to provide a blood screening or to measure body fat for interested employees.

Taxability: The practice of rewarding employees for commendable work, safety achievements, productivity or better health is a time-honored

tradition. Generally, all awards and prizes with a value in excess of \$25.00 that are given to employees are considered taxable income and are treated as wages for federal income tax withholding and for purposes of the taxes imposed under the Federal Insurance Contribution Act. Note: achievement and safety awards have some special requirements. Contact your tax advisor for details.

A concept practiced by many employers is to give a de minimis fringe benefit. A de minimis fringe benefit is any property or service that an employer provides to an employee, if the value or service is so minimal that accounting for it would be unreasonable. Some examples of de minimis benefits outlined above: 5. Fruit or vegetable tray to employees on their birthdays; 6. Lifesavers for wearing seat belts; 7. Chartering a bus and taking employees to an out-of-town activity as long as it is done as an occasional sporting event or theater tickets; 9. Providing a weight watchers leader to a group of employees at no additional charge to employees.

Examples of what is not considered de minimis and would be taxable as wages to employees are: 1. Cash or cash equivalents for shoes, shorts or sweats; 2. and 3. Membership to private country club or athletic facility, regardless of the frequency or who uses the facility; 8. Reimbursement to employees for joining Weight Watchers.

The value of a physical examination provided by an employer under a program separate from a group health or medical insurance plan is includible in an employee's gross income. Therefore, if the district reimburses employees for their annual physical even though required, it would be considered taxable income (Item 10). Yet, if the physical is covered in whole or in part under a group medical plan, the employer need not include the value for reimbursed services in the employee's income. Items 11. and 12. appear to be part of a group medical plan and would not be taxable income to the employee.

WELLNESS ON THE BOOKS

Q: What is the proper way to account for wellness on the books?

A: Wellness dollars generally come from a reduction in premiums under an agreement to provide wellness activities and benefits to employees. At the point that the district receives the reduction in premiums it incurs an obligation under its health insurance

contract to use those "saved" dollars for wellness. The equivalent dollars, previous unreserved, become reserved for wellness on the balance sheet. As the district provides the wellness activities and benefits, the expenditure is recorded. The balance sheet will then record a credit to cash and a debit to reserved fund balance for wellness. *Please note that only the actual dollars paid in premiums are recorded on the books as **insurance**. The difference between what the full premium would have been and the actual premium paid is recorded as a **wellness expenditure when expended**.* Generally, the steps are:

When the district pays the monthly premium and receives the reduction (example, the total premium would have been \$1000; but \$100 was reduced for wellness, leaving a \$900 premium):

	Debit	Credit
Insurance fringe benefit object, various functions same as salary	900	
Cash		900

If your computer accounting system does not automatically recognize the wellness obligation dollars and complete the balance sheet journal entry, you will need to manually enter:

Unreserved fund balance	100	
Reserved fund balance for wellness		100

When the district provides a wellness activity or benefit (example, \$20 in fruit baskets):

Wellness fringe benefit object*	20	
Cash		20

* A good rule of thumb to use to determine the correct function code might be to follow the IRS taxability regulations: If the payment is taxable, use the same function as salary that follows the individual employee. If the payment is a de minimis nontaxable payment, use the central wellness function 2835.

If your computer accounting system does not automatically recognize the wellness project code 1767 and reduce reserved fund balance instead of the usual unreserved fund balance, you will need to manually enter:

Reserved fund balance for wellness	20	
Unreserved fund balance		20

NEW!!!!!!! CHANGE IN ACCOUNTING FOR CONSORTIA

The procedure utilized by districts to account for federal pass-through money received by a fiscal agent for a group of LEAs/AEAs has been changed beginning with FY96. The previous procedure was based on advice from the attorney general's office prior to GAAP accounting. Fiscal agents who are non-GAAP districts have been finding that this arrangement can reduce their unspent balances at fiscal year end when they must pay the other member districts their final payments prior to state reimbursement. This old procedure also was not being consistently followed for CAR and audit reporting.

GAAP provides an appropriate method to account for these transactions which will not impact the unspent balance of the fiscal agent.

Fiscal Agent procedure: Deposit and disburse the grant from an Agency Fund. Use the correct project code for the grant. (Example, \$60000 grant on behalf of six districts including your own.)

	Debit	Credit
Cash	60000	
Payable to LEA 1		10000
Payable to LEA 2		10000
Payable to LEA 3		10000
Payable to LEA 4		10000
Payable to LEA 5		10000
Due to General Fund		10000

Even though an agency fund only reports a balance sheet, it is proper to have subsidiary records. The district may use the full accounting system (revenues and expenditures) as usual as its subsidiary records.

Subrecipient (not fiscal agent) Procedures:

Deposit the grant into source code 4710 if the fiscal agent is an LEA or into source code 4720 if the fiscal agent is an AEA. Use the correct project code for the grant which will not be the same as the source code.

Subrecipient (also fiscal agent): Transfer the grant moneys from the agency fund to the general fund. Record the receipt in the general fund using the correct source code and project code for the grant (4100-4599). In your situation, the source and project codes will be the same.

STUDENT ACTIVITY FUND

Q: Is there training or workshops available to discuss the activity fund?

A: Yes. Workshops are available on request by the AEAs for LEAs. Three workshops were given in June for AEAs 1, 7, 15, and 16. These workshops were casual and included a brief large group presentation followed by one-on-one discussion. At two of the three workshops, there were more schools wanting one-on-one assistance than time allowed.

If AEAs are interested in scheduling workshops, they may want to consider scheduling half hour time slots for groups of similar districts throughout the day to reduce waiting time. Please be flexible on dates and times so Susan McCurdy can coordinate travel plans.

Q: Must the student activity fund use the same account code structure as other funds?

A: Yes. The official records of all funds must utilize the uniform financial accounting code structure.

Districts may maintain additional supplemental records in any format the district chooses. However, those must only be supplemental to, and may not be in place of, the official records on the UFA structure. *Using the UFA structure to provide subsidiary records rather than an independent system will reduce or eliminate the need for reconciliation of records.*

Q: If sponsors and coaches want their information short form (beginning balance, receipts, disbursements, ending balance) what is the best way to provide this information and also maintain the UFA structure?

A: That short form of information is not an accounting system in itself; it is a report which can come from the UFA system using a sort by project code.

MINIMUM CHART OF ACCOUNTS FOR STUDENT ACTIVITY FUND

Questions districts ask regarding accounting for student activities indicate that districts maintain many more accounts than are required. Student activities or organizations are merely "line items" within the activity fund budget in the same way that the English

department and math department are "line items" within the general fund budget. It is fine to have detailed records as long as the district has a purpose in doing so.

Uniform Financial Accounting requires that districts maintain the level of detail that is necessary for proper state and federal reporting. Districts may add to that the level of detail necessary for additional local reporting.

HF686, Section 18, 1985 General Assembly, required districts to report revenue and expenditure detail of their cocurricular activities and sports programs for FY86. Project codes were established for that purpose. The project codes are still available for districts to use locally, but have not been required for state or federal reporting except for that one year.

Uniform Financial Accounting and GAAP state that the minimum number of funds and accounts necessary for operation should be maintained. Therefore, if the district has no local use to identify projects, it can use "0000." A district would look at each dimension to determine what level of detail is necessary:

Fund. The fund code is pre-assigned. If using the GAAP fund codes, the activity fund is 21. If still using the statutory fund codes, the activity fund is 13.

Source. State and federal reporting require that detail be maintained. This means that if a code is listed in the UFA manual for a particular type of receipt in the fund, it must be coded that way.

Facility. There is no state or federal requirement for reporting by facility. If the local district uses site based management or does cost accounting, some level of detail may be useful.

Function. Generally the only function in the activity fund will be 1000. Function is required for state and federal reporting.

Program. Generally the only program in the activity fund will be 400. Reporting in three groups: 410 for activities, 420 for athletics, and 450 for organizations might be useful, particularly if a district does not use project detail. Discussions on the federal level this summer indicated a possible need to be able to identify student organizations separate from school-sponsored events. This is just preliminary discussion, but there is concern that including revenues and expenditures of student organizations distorts the comparable data of what

public schools spend on students. The information would be reported separately rather than as part of the comparable data.

Project. There is no state or federal requirement for reporting by projects. This dimension is used to provide various reports. If the district does not use reports by individual activity locally, then it does not need individual project codes. In fact, using individual project codes when that is not the local district's philosophy of student activities might actually be counterproductive--using individual project codes can fuel the "my money" syndrome.

It might be important to a local district for reporting equity to determine what activities are for boys and what are for girls. That district could use 6700 for boys and 6800 for girls for the detail it needs.

It might be important to a local district to teach budgeting and planning skills through its student organizations, but the district wants its employees to view the school-sponsored events as a total program offering for the benefit of all students. That district could use 0000 for all school-sponsored activities and athletics but use individual project codes for student clubs and organizations in the 7000-7999 group.

There are many other possibilities for coding in the project dimension depending on the local district's philosophy and strategic plan.

Object. State and federal reporting require that detail be maintained. This means that if a code is listed in the UFA manual for a particular type of object in the fund, it must be coded that way.

Account. Activity fund will have very few balance sheet accounts. However, those it does have must be reported at that level of detail.

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